Performance Review

Continued from page 19

exceptions, interest-rate changes may not have affected their earnings as sharply as those of the other institutions.

Nonperformers and the Margin

Although data on interest sensitivity are notoriously sparse and unreliable, there is some evidence that because the smaller institutions have relatively more rate-insensitive core funds, they are much more asset sensitive than the bigger ones. The 1982 decline in interest rates may therefore have adversely affected their net interest margins, as asset yields fell by appreciably more than the drop in liability costs.

To be sure, in many instances of ROA, ROE, and margin declines, the chief culprit is not rate sensitivity but the elevated level of nonperforming loans. An increase in nonperformers depresses gross asset yields and leads to a rise in the loan-loss provision. Hence it may weaken both the margin and overall performance.

In other instances, a liability-sensitive institution may benefit sufficiently from the decline in rates to more than offset the impact of a rise in nonperformers on the gross asset yield. Yet the required increase in the loan-loss provision may swamp the improvement in the margin and lower the return on assets and equity.

Such was the case with the Norwest Corp. Its 1982 margin actually improved by some 17 basis points, but, influenced by the huge increase in the loss provision, the company's return on assets dropped from 90 to 73 basis points. And its return on equity fell from 15% to 12.11%.

Nevertheless the marketplace did not significantly penalize the company's stock. Norwest has considerable potential strengths stemming from its foray into nationwide financial services, as evidenced by its acquisition of Dial — a highly touted finance company. As a result, Norwest's ratio of market-to-book value in early 1983 remained about where it was in early 1982.

Although the Minneapolis institution ranked 13th in a peer group of 18 banks with respect to ROE and next to last in earnings-per-share growth, it placed 10th in market acceptance — just below the median for the group.

The Sizzle and the Steak

Among the standouts in the $5-billion-plus group is Banc One of Columbus, Ohio. It ranked second in ROA and ROE, seventh in EPS growth, and second in market acceptance.

Banc One has achieved considerable celebrity as an innovator in technology and as a processor of financial transactions, more specifically as a helpmate to Merrill Lynch. Yet, notes CFO George Meiling, its much ballyhooed EFT and processing activities — and indeed its entire performance in the fee income area — represent "just the sizzle from the steak." The basic quality of the meat is high enough to justify the market's enthusiastic acceptance of Banc One's stock.

The bank's 1982 margin of 5.97% was 153 basis points higher than that of BancOhio and 112 basis points greater than that of Huntington Bancshares — two other Columbus-based competitors.

It is true that margin comparisons are notoriously treacherous since one institution may include fees in the earning-asset yield, while another may classify the same fees as "other income." Nevertheless the huge disparity in the margins of these three neighboring banks cannot possibly be explained away by differences in the accounting treatment of noninterest income.

Banc One is apparently a better-run organization. It buys more profitable smaller banks than does its competitors. It does not incur dilution. And it operates its acquired properties with a minimum of central-office interference, encouraging local entrepreneurship.

In this latter respect, Banc One executives compare themselves to Allied Bancshares, the standout bank among the 62 institutions and the premier performer in the $5-billion-plus class. Superficially, the two institutions seem quite dissimilar. Banc One is a retail-oriented Midwest institution, while Allied is a wholesale-oriented Southwest company.

In a financial sense, however, they are look-alikes. Both can boast of unusually high margins, low overhead, strong capitalization, and lofty capital formation rates. (Banc One charges off more loans, but it also recovers more of what it charges off.)

Three Key Problems

Unfortunately, the universe of 62 banking companies is not dominated by the Banc Ones or the Allieds. Most of the 62 found life exceedingly difficult last year. ROA was stable to declining. ROE fell across the board, in part because of weakened ROA, but also because the growth rate of assets was exceeded, in many instances, by the growth rate of equity. That is, influenced by sluggish volume, leverage declined.

Market acceptance continues weak and will remain so until the industry solves its three key problems: (1) suspect credit quality; (2) indifferent asset-liability management; and (3) inadequate cost control and difficulty in modernizing delivery systems as rapidly as is required. ■

Volcker Letter

Continued from page 4

With interest paid on reserve balances, depositors would be able to recieve as good a yield on Super NOW accounts as on MMDAs — abstracting from service charges depository institutions might impose — and the former would also have the capacity for unlimited transfers by check.

But payment of interest on Super NOW reserve balances does open up the issue of whether interest should also be paid on reserve balances of all transactions accounts. As deregulation proceeds, it will be difficult to distinguish Super NOW accounts functionally from regular NOW accounts. Paying interest on all NOW account reserve balances — and perhaps at some point extending to balances held against demand deposits generally — would involve a fairly significant drain on Treasury revenues.

Thus, while the board as a matter of principle favors payment of interest on all reserve balances, the question of whether interest should be paid on reserve balances held against regular NOW accounts, or transactions accounts more generally, should be judged additionally from the perspective of overall fiscal considerations and equity in the raising of revenue.

As a final point, the board feels that for technical monetary control reasons, it would be better to pay interest on reserve balances on a more current basis than the one-quarter lag in the proposed legislation.

There would probably be less potential for complicating monetary control if the law gave the board discretion to set a rate based on or related to market rates, or — if it were felt that more specificity was desirable — based on the average yield on, say, the system's Treasury bill portfolio in a current month. ■

Legislature . . .

Continued from page 6

Dewey G. Crump, warned that the amendment may hurt independent banks in the long run. "They've always been against crossing county lines, and now they've broken the barrier," he said.

Mr. Crump, a Democrat from Hazelwood, warned that he may seek "equality" for metropolitan banks on the question of crossing county lines.

The savings and loan lobby won passage of its main legislative priority, a bill that would give Missouri-chartered thrift institutions essentially the same powers that federally chartered thrifts have. However, a provision that would have allowed savings and loans to call themselves savings banks was deleted from the bill.

Bankers also won passage of a two-year freeze on credit life insurance premiums, which the Missouri Division of Insurance has been trying to lower. The Senate had gone along with bankers' wishes for a six-year freeze, but the House approved only a one-year freeze, and two years was agreed upon as a compromise.

Earlier in the session, the legislature approved a bill that would force financial institutions to help the state Department of Social Services in catching welfare cheaters.

Banks, savings and loans, and credit unions could be forced to search their account records for names of welfare recepients, and to turn over information on those persons to state officials. The state would compensate the financial institutions for costs they incur in finding the records. ■

To Our Readers

American Banker would appreciate your comments on the American Banker's Bank Performance statistical tables in today's issue. Please answer the following questions and return the questionnaire to L. Michael Cacace, American Banker, One State Street Plaza, New York, N.Y. 10004.

Title of Table_____ Date_____

1a. How useful is this tabulation to you?

____ (A) Very Useful ____ (B) Quite Useful

____ (C) Somewhat Useful ____ (D) Not Useful

1b. Would you explain your response to Question 1a?

2. What do you think is **best** about this tabulation?

3. What do you **like least** about this tabulation?

4. How would you **change** this tabulation to make it more useful?

5. Who else in your company, by title, would find this tabulation useful?

Name_____ Title_____

Company_____ Phone_____

Address_____

7/19/83
CO 175-1A

American Ba

The Only Daily Banking Newspaper

150222000015 1/ 2/84 0484
SAMPLE
CONGRESSIONAL INFOR SREV SRI
SUSAN GARNER
4520 E. WEST HIGHWAY
BETHESDA MD 20814

VOL. CXLVIII NO. 138 Monday, July 18, 1983 148th Year

Tennessee Judge Rules C.H. Butcher Bankrupt

Special to the American Banker

KNOXVILLE, Tenn. — C.H. Butcher Jr. was placed into involuntary bankruptcy Friday morning after declining to file an answer to a June petition from the Federal Deposit Insurance Corp. and three banks.

The federal regulator and the banks sought to liquidate his assets to pay at least $13.4 million in debt.

U.S. Bankruptcy Court Judge Clive Bare must now appoint a trustee to marshall Mr. Butcher's assets and then distribute them to creditors. A July 1, 1982, financial statement listed Mr. Butcher's net worth as $60.7 million, but the forced closings and sales of most of his 25 banks in Tennessee and Kentucky in the last four months have strained him financially.

Mr. Butcher's brother, Jake, and three associates also face bankruptcy petitions. The latest petition was filed against David A. Crabtree by the FDIC, First Tennessee Bank-Knoxville, and First Peoples Bank of Washington County, citing more than $1.7 million in debts.

Mr. Butcher's bankruptcy attorney had no comment. Mr. Butcher, however, can still request that the petition be converted to a Chapter 11 bankruptcy, under which he can continue to operates his affairs and reorganize his finances.

➳ Butcher: Page 12

Withholding Conference Set

To Reconcile House, Senate Repeal Bills

By ANDREW ALBERT

WASHINGTON — House and Senate conferees Tuesday will begin working toward a compromise on how to eliminate the law requiring a withholding tax on interest and dividends.

Since the two chambers passed separate repeal measures in the spring, the heavy publicity surrounding the withholding battle has subsided.

But the House-Senate conference is certain to bring out the influential banking lobbies in force. In recent months Washington lobby groups have been divided in their strategy on how to kill the withholding law.

Some organizations prefer the Senate repeal measure, which includes several amendments considered more attractive to President Reagan and the GOP leadership in Congress.

However, some other banking associations have endorsed the House version of the repeal, which would simply eliminate the withholding law without enacting any other programs.

Lobbyists interviewed last week said they expected the conferees to compromise and draft a plan that lies somewhere between the two divergent repeal measures.

➳ Withhold: Page 12

Groups Push For Action On Closings

Consumers Feel Loss As Branches Are Shut

By LAURA L. MULCAHY

NEW YORK — Consumer and public interest groups are starting to press legislators and regulators to deal with the issue of bank branch closings.

Although in some cases the closing of a particular branch is at issue, the main concern these groups have is that a branch closing may leave a community with a lesser level of financial services.

Consumers want to know well in advance when a branch is going to be shut down, so they can analyze the effects before the storefront is vacated.

In particular, consumers are saying that the increased incidence of branch closings calls into question banks' fulfillment of the Community Reinvestment Act of 1977. That act requires banks and other federally regulated institutions to meet the credit demands of the communities where they are chartered. And it instructs regulators to consider such performance — including records of branch closings — when weighing new applications for branches.

However, the act does not address regulation of branch closings and their effect on an institution's investment policy.

Banks are closing branches in low- to moderate-income neighborhoods because they seek the higher profits of other markets, consumers and officials say. Bankers say cost is one of the main reasons they are closing branches;

➳ Closings: Page 12

Wading Through the Alphabet Soup of World Finance

By ROBERT E. NORTON

NEW YORK — When a poor country runs out of money, it can ask for a loan from the IMF or the BIS, it may have to deal with the IBRD, the OECD, the Group of Five, or the Group of 10, and eventually it winds up going to the Paris Club....

Who are these people, anyway? If you don't know, you're not alone. Even the experts get confused.

Take the Paris Club. It's not a club at all. You can't join it or buy a drink there. It doesn't even exist officially. But it is the court of highest appeal for decisions involving billions of dollars.

Although most people have little or no idea what these mysterious organizations are or what they do, these bodies are important players in the world of banking and finance. And the impact of their activities is no longer felt solely on Wall Street.

The machine-tool factory on Main Street, for instance, may very well depend on less-developed countries such as Brazil, Chile, and Mexico for 30% of its orders and, consequently, 30% of its jobs. And American farmers have just as much reason to worry about the international financial crisis as New York bond salesmen. What the IMF (the International Monetary Fund) does in Latin America can affect their livelihoods as much as the weather in the Midwest.

To make the task of following the

➳ Definitions: Page 3

INSIDE

What Is M1?
The interpretation of M1 data released by the Federal Reserve each Friday afternoon is exactly the opposite of what we were taught in school, and it should get less attention: BANKING TRENDS....4

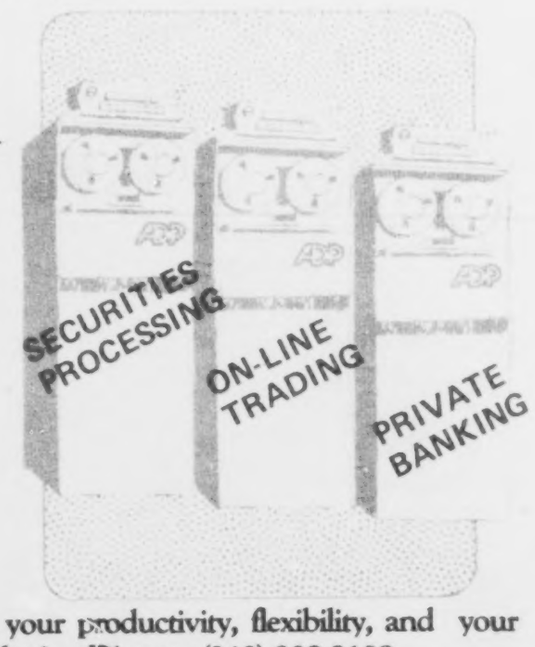
Washington This Week....2
Memory Bank....4
Executive Changes....5
The Markets....7
Futures Weekly....9
Bank Stocks....10

Crossword
Because of transmission problems, there were inaccuracies in the crossword grid presented in the Friday, July 15, edition. We are repeating the correct version in today's paper. The solution will appear in the July 19 newspaper....15

ADP®

Automation Is Your Key To Profitable Growth.

Changes taking place in the American banking industry offer opportunities-but only to those who assume strong leadership roles. ADP services for Bank Trust, Investment, and Securities activities provide the means for strategic positioning in your new business environment.



For information on increasing your productivity, flexibility, and your profits, contact: Jim Elliott, Marketing Director (212) 908-8108

INTERNATIONAL SERVICES.

A world of opportunity for your customers.

1784

BANK OF BOSTON

Call William I. MacDonald, Sr. Vice President, Correspondent Division, at (617) 434-3856.

©1983 The First National Bank of Boston

The Markets

Volcker Testimony Confuses Treasury Market Players

By JOHN J. DUFFY
Munifacts News Wire Services

NEW YORK — The Treasury securities market began applauding even before Paul Volcker stepped up to the microphone in his renomination hearings before the Senate Banking Committee last week. At the close of the performance, however, many market players were left just a bit unsure what all the cheering was about.

Mr. Volcker "succeeded once again in being a Delphic oracle," said Samuel Kahan, a Treasury futures specialist at Heinold Commodities. "He said a lot of the things he had said before, and not much else."

While the Federal Reserve Board chairman conceded that the recent growth of the money supply has been on "the rapid side," he maintained that nothing "terribly dramatic" was being contemplated to stem that growth.

"We have been slightly less accommodative in recent weeks," Mr. Volcker said, "but I wouldn't expect to see any quick reflection of that" in near-term money supply growth trends. Returning the M1 money aggregate to its 4%-8% target growth range, moreover, "isn't necessarily a high priority," he said.

All of which left participants in the government securities market, by the conclusion of the testimony, feeling decidedly nonplussed. "I mean, what is the point of having a target growth range if hitting that target is not a high priority?" one government bond trader said wearily at the close of Thursday's trading.

He and other Treasury debt traders took some solace in the fact that a fuller description of the decisions taken at last week's Federal Open Market Committee meeting can be expected Wednesday, when Mr. Volcker will deliver his biannual Humphrey-Hawkins testimony before the House Banking Committee.

Meanwhile, the only true indicator of market sentiment, market prices, continued to give off negative readings last week. Bond prices added another notch to their record string of nearly-one-point weekly losses, sinking to their lowest levels since last October. The nine-month low in bond prices comes despite the fact that some key short-term rates remain well below those prevailing last October.

Bond yields, for example, averaged about 11.15% in October, while the Fed funds rate was hovering at about 9¾% and the discount rate was set at 9½%. At mid-afternoon Friday, the bellwether 10⅜% bond of 2012 was yielding 11.50%, the funds rate was at 9¼%, and the discount rate remained at 8½%.

Short-Term Rates Could Rise

With the Fed admittedly tightening bank reserve availability, short-term rates could soon escalate to last autumn's levels as well, some analysts believe.

Unfortunately, the root cause of the rapid rise in interest rates over the past two months remained just as controversial after Mr. Volcker's testimony as before. Although the Fed chairman characterized policy as being "slightly less accommodative" in recent weeks, such a judgment is not readily apparent from a glance at the weekly levels of free as against borrowed reserves in the banking system.

Consequently, some analysts point to what the Fed has already done, rather than what it is currently doing — or is about to do — as cause for the sharp upward rate shift.

"Interest rates are not rising because the Fed has tightened its monetary posture, nor are they climbing from the threat of same," said Fred D. Kalkstein, chief economist at Janney Montgomery Scott. "Interest rates are rising because the Federal Reserve's overly accommodative credit-creativity portends a resurgence of inflation."

For evidence, Mr. Kalkstein pointed to a statistic called adjusted Federal Reserve credit. Adjusted Fed credit measures the Fed's assets, which consist mainly of loans and its portfolio of government securities. The data are adjusted by the Federal Reserve Bank of St. Louis to smooth out reserve-requirement and seasonal influences.

When the Fed buys securities in the open market, it pays for them by crediting the reserve account of the seller's bank. Because banks are required to maintain reserves equal to a percentage of the deposits on their books, an increase in reserves expands the banks' ability to increase their deposits by making loans and investments — and thus to fuel the growth of the money supply.

As of the week that ended July 6, the Fed has expanded bank liquidity at a 52-week annual rate of 10.6%, a very high rate by historical standards and one that has traditionally led to an increase in consumer prices, Mr. Kalkstein said, as banks turned these reserves into money that consumers can spend.

As evidence that banks are indeed translating these reserves into cash, Mr. Kalkstein cites the 66.2% annual rate of increase in banks' holdings of Treasury securities between September 1982 and May of this year.

"Since bank lending capacity has taken on such enormous proportions, the odds favor that the next few years will witness a private borrowing explosion similar to 1978 and 1979," Mr. Kalkstein said. Only this time around, the Treasury's huge borrowing needs will make it that much harder for the Fed to restrain such an explosion, he said. Needless to say, Mr. Kalkstein is bearish on the bond market.

In the week's price action, the three month-30 year yield curve (preclose prices) widened slightly to 206 basis points, up from 194 basis points a week earlier, while the 10 year-30 year curve nearly disappeared. In the short end of the market, meanwhile, the spread between the three-month and six-month bill yield moved to more than 50 basis points from 43 basis points the previous Friday.

The reason: Investors are parking cash in the shortest maturities until the current storm over monetary policy blows over. The move to short marturities was also prompted by concerns about Brazil's ability to service its foreign debt after the Bank for International Settlements refused to roll over a $400 million loan payment due last Friday.

By mid-afternoon Friday, coupon prices were down ⅜ point in the 2-year area, 1¼ points in the 10-year area, and 1⅝ points in the long end. The bellwether 10⅜% bonds of 2012 were quoted at 90½-⅝ to yield 11.50%. ■

Money Market

Friday, July 15, 1983

Federal funds range....9⅜%-9⅛%
Prime rate (2/28/83)....10½%
Discount rate FRB of New York (12/14/82)....8½%
Call Loans on Securities:
To brokers on stock exchange collateral....10%
To dealers on U. S. Gov't Securities....N.A.

Bankers Accepts. offering rate—discount basis (7/15/83):
30 days—N.A. 60 days—N.A. 90 days—N.A.
120 days—N.A. 180 days—N.A.

N.Y. City Banks' CDs — Highest Offering Rate (7/15/83)
14 days— 8.90 30 days— 8.95 60 days— 9.10
90 days— 9¼ 120 days— 9⅜ 150 days— 9¼
180 days— 9¾ 270 days— 9¾ 360 days— 9.85

Dealer Comm'l paper—discount basis (7/15/83)
30 days—9.05 60 days—9.20 90 days—9.25

Comm'l Paper Directly Placed—Range disc. basis (7/15/83)
5-14 days—7-9⅛ 15-29 days—7-9¼
30-59 days—7-9¼ 60-89 days—7-9¼
90-179 days—7-9⅜ 180-270 days—8-9¼

Eurodollar Deposits—London bid (7/15/83)
Overnight—9⅜ 7 days—9 9/16
1 mos.—9 11/16 3 mos.—10⅛
6 mos.—10 9/16 1 year—10¾
NIBOR (6-month)....10⅝
LIBOR (6-month)....10 11/16

Savings Rates

91-day time CD....9.07%
6-month money market certificates*....9.26%/9.51%
18-month small-saver certificates*....9.80%/10.05%
*—Rates shown are commercial bank/thrift institution offering rates.

Futures Markets

3-Month Domestic CD Futures (IMM)+

Delivery Month	High	Low	Settlement	Change (a)	Yield (b)
Sept '83	89.77	89.67	89.74	— 5	10.26
Dec. '83	89.42	89.31	89.35	—11	10.65
Mar. '84	89.18	89.09	89.14	—13	10.86
June '84	88.98	88.96	88.98	—13	11.02

As of the previous day's close; Total no. of contracts traded: 6,295; total open interest: 17,657; and change in open interest: +33

3-Month. T-Bill Futures (IMM)++

Delivery Month	High	Low	Settlement	Change (a)	Discount Yield (b)
Sept '83	90.50	90.40	90.45	— 6	9.55
Dec. '83	90.14	90.04	90.07	—10	9.93
Mar. '84	89.91	89.95	89.86	—10	10.14
June '84	89.74	89.67	89.68	—10	10.32
Sept '84	89.57	89.52	89.53	— 9	10.47
Dec. '84	89.45	89.34	89.38	—11	10.62
Mar. '85	89.25	89.23	89.25	—12	10.75
June '85	89.13	89.11	89.13	—13	10.87

As of the previous day's close: Total volume: 18,428 total open interest: 44,650; and change in open interest: —240

Gold Coins

Coin Name & Weight	$ Value per Coin July 15	July 14
Maple leaf (1 Troy oz.)	444.50	445.00
Mexican peso (1 Troy oz.)	444.50	445.00
Chinese Panda (1 Troy oz.)	451.50	452.00
U.S. Armstrong (1 Troy oz.)	444.50	445.00
Mexican 50 peso (1.2 Troy oz.)	528.00	528.25
Austrian 100 corona (.98 Troy oz.)	420.75	421.25
Mexican 20 peso (.48 Troy oz.)	215.00	216.50
U.S. Wright (.50 Troy oz.)	222.25	222.50
Maple Leaf ¼ ounce (.25 Troy oz.)	118.50	119.75
Austrian 1 Ducat (.11 Troy oz.)	53.00	52.50

These quotes represent the N.Y. fixing price, which are a midprice between what buyers are bidding and sellers are asking. The prices are quoted by Deak Perera, but may vary among dealers, depending on market conditions.

How Money Fund Assets Are Invested

(Dollar Figures in Millions)

	May. '83	% of Total	Apr. '83	% of Total	May. '82	% of Total
U.S. Treasury Bills	34,040.2	20.1	33,315.9	19.4	24,145.8	12.0
Other Treasury Securities	2,129.2	1.2	2,434.0	1.4	2,928.4	1.5
Other U.S. Securities	9,618.0	5.7	9,274.4	5.4	10,622.8	5.3
Repurchase Agreements	14,529.3	8.6	13,497.3	7.9	17,092.1	8.5
Commercial Bank CDs	21,582.9	12.7	22,041.7	12.9	39,648.9	19.8
Other Domestic CDs	2,709.3	1.6	5,421.9	3.2	3,390.4	1.7
Eurodollar CDs	19,668.8	11.6	19,486.5	11.4	22,940.6	11.4
Commercial Paper	49,994.1	29.5	48,047.0	28.0	62,221.9	31.0
Bankers Acceptances	16,798.1	9.9	16,380.3	9.6	15,151.2	7.6
Cash Reserves	-3,788.9	-2.2	-499.5	-0.2	-270.6	-0.1
Other	2,370.1	1.4	2,102.3	1.2	2,796.9	1.4
Total Net Assets	169,650.9	100.0	171,501.8	100.0	200,668.4	100.0
Change in Month	-1,850.9		-8,808.8		8,442.7	
Average Maturity	39		40		34	
No. of Accounts	12,647,526		12,590,692		11,953,097	
No. of Funds	309		297		210	

Reporting funds account for about 98% of all money market fund assets. Commercial bank CDs are those issued by American banks located in the U.S. Other domestic CDs include those issued by S&Ls and American branches of foreign banks. Eurodollar CDs are those issued by foreign branches of deomestic banks and some issued by Canadian banks — including some one-day paper. Estimates of total net assets are as of the end of the month. Maturity is the average of each individual security in the portfolio at the end of the month weighted by its value.
Source: Investment Company Institute.

The best rates in 5-year Adjustable Rate C.D.'s.

Rate to be determined by issuer on the 14th day preceding each January 1st, April 1st, July 1st, and October 1st and **will be equal to 90 basis points above the average** of the two most recent 91-day Treasury Bill auction rates (expressed on a bond-equivalent basis).

All C.D.'s are insured by FSLIC and FDIC to the maximum amount of $100,000 for each depositor.

Call us immediately for details on our current issues: 1-800-327-9097, 1-800-327-3466 or (305) 858-2519.

FAIC SECURITIES, INC

Member, NASD / An affiliate of
First Atlantic Investment Corporation.
2600 S.W. 3rd Avenue, Miami FL 33129

American Banker

The Only Daily Banking Newspaper

VOL. CXLVIII NO. 141 | Thursday, July 21, 1983 | 148th Year

Fed's Curbs on Monetary Growth Will Be Moderate, Volcker Testifies

Markets Rally in Reaction to Fed Chairman's Testimony; Fear of Harsh Action Eased; Lower Short-Term Rates Expected

By ANDREW ALBERT

WASHINGTON — The financial community reacted favorably Wednesday as Federal Reserve Chairman Paul A. Volcker announced that his agency would try to curb money supply growth at a a less restrictive rate than was previously feared.

Text of Volcker Testimony, Page 4

On Wall Street, the stock markets rallied as investors interpreted the change in the Fed's monetary targets as signaling lower short-term interest rates over the next month or two.

The Dow Jones average of leading industrials closed up 30.74 points to 1,227.86 in heavy trading Wednesday, with traders attributing most of the big gain to Mr. Volcker's remarks.

James Bohan, vice president for market anaylsis at Merrill Lynch & Co. in New York, said the stock market interpreted Mr. Volcker's comments as meaning that "rates are as high as they are going to go for a while." He added

➳ Volcker: Page 15

Hutton Seeks Charter for Del. Bank

By DAVID O. TYSON

NEW YORK — E.F. Hutton Group Inc., which already owns a trust company in Delaware, seeks a state charter for a commercial bank there as well.

Firm Granted RI Trust Charter, Page 15

The institution, to be called E.F. Hutton Bank, would market insured certificates of deposit through the Hutton branch network and sell participations in large mortgage and commercial loan pools.

Irving S. Shapiro, acting as spokesman for Hutton, parent of the fourth largest brokerage firm, said in a telephone interview from Wilmington that the subsidiary would be set up essentially like a bank chartered under Delaware's Financial Center Development Act of 1981.

"But to come in under that statute would make Hutton a bank holding company," Mr. Shapiro said. "So they are doing the same thing under the banking code of Delaware."

The subsidiary is a nonbank bank because it will not take demand deposits, Mr. Shapiro said, but it will issue CDs and be free to make commercial loans.

Mr. Shapiro, retired chairman of the Du Pont Co. and now practicing

➳ Hutton: Page 14

Continental Earns $31.2 Million In Slow Recovery

By JOHN MORRIS

CHICAGO — The recovery of Continental Illinois Corp. from its loan problems will be slow, results for the second quarter show.

The parent of Continental Illinois National Bank and Trust Co. of Chicago earned a net $31.239 million, or 78 cents per share — little changed from the first quarter's $31.216 million, or 78 cents a share. But the figure was a dramatic improvement over last year's second-quarter net loss of $63 million caused primarily by the failure of the Penn Square Bank NA of Oklahoma City.

More Earnings Figures, Page 3

Analysts said the profit picture was pretty much as expected, although one or two pointed out that earnings are still a far cry from the high-flying $1.50 per share of pre-Penn Square days.

They were encouraged, though, by the small size of one-time gains included in the earnings. These comprised about 2 cents a share for securities gains, and 19 cents a share from the sale of investment securities. But the latter nowadays are almost a regularly recurring one-time item, one analyst remarked dryly. This means the earnings essentially reflect reality, and have not been pumped up to please Wall Street.

Perhaps the one fly in the ointment was an increase in nonperforming loans to a peak of $2.08 billion, or 6.6% of total loans and leases up from the previous high of $2.01 billion, or 6.23%, at the end of March, and $1.93 billion, or 5.78%, at the start of the year.

➳ Continental: Page 15

FTC Rules Will Alter Loan Papers

Late Fee, Cosigning Disclosure Required

By TERESA CARSON

WASHINGTON — The Federal Trade Commission Wednesday passed new consumer credit rules that banking attorneys say will require creditors to rewrite consumer loan contracts.

The new rules cover creditors' remedies and collection practices on delinquent consumer loans. Bank attorneys say most of the practices acted on by the commission are not common among banks and will not change banks' consumer lending business.

However, the attorneys say, because of those two rules, banks, finance companies, and other creditors will have to change their consumer credit forms.

Peter D. Schellie, attorney for four bank trade associations, said he plans to submit a motion for reconsideration that would eliminate the need to rewrite consumer loan documents.

The FTC has direct authority over finance companies and other consumer creditors, but not over depository institutions. However, if the FTC makes a rule, the Federal Reserve Board is required, with only a few extraordinary exceptions, to adopt substantially similar rules for depository institutions.

The commission voted to require a disclosure to cosigners on consumer loan documents informing them of their responsibilities.

The commission also voted to curb a practice known as pyramiding, a practice in which a bank could require late

➳ FTC: Page 15

INSIDE

International Briefing
A Bank of England report may indicate growth of the 'gray economy,' in which money circulates outside of official notice.....2

Banner Year for Trust Banking
Growth of the trust banking industry set new records in 1982 as assets increased more than $100 billion to $689 billion at yearend.....2

Butcher Charges Pressure Tactics
Jake Butcher has accused the FDIC of using pressure tactics in its suit against him which forced him into bankruptcy.....2

Franchised Real Estate Loans
Valley Federal Savings and Loan, Van Nuys, Calif., has entered into a franchise deal to develop real estate loans 3

Bank Stocks.....6

Trust Banking.....8

The Markets.....11

Serving the municipal bond needs of Trust Bankers since 1898.

nuveen

JOHN NUVEEN & CO. INCORPORATED
Chicago, New York and Principal Cities

KBW

MARKET MAKERS IN BANK STOCKS

KEEFE, BRUYETTE & WOODS, INC.
One Liberty Plaza, 91 Liberty Street
New York, N.Y. 10006
(212) 349-4321 • (800) 221-3246

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Cover 1, p.7.